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TAGS: [PREL](#) [MOPS](#) [MARR](#) [ECON](#) [PGOV](#) [LG](#)
SUBJECT: WORKING WITH LATVIA DURING ITS ECONOMIC CRISIS

Classified By: Charge d'affaires, a.i. Bruce D. Rogers. Reason: 1.4 (D
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¶1. (C/NF) Summary: The current economic crisis has forced Latvia to scale back its ambitions in foreign and defense policy. Latvia has identified the NATO mission in Afghanistan and assisting emerging democracies as its main priorities. We need to support this narrower focus. Our challenge is to ensure that Latvia emerges from the crisis with the same foreign policy orientation and with the same broad public support. Given Latvia's size, even seemingly small requests have a disproportionate budgetary impact and any new commitments will be seen as taking away from social needs. Therefore, we need to help Latvia do what it can while not asking it to do what it can't. End summary.

¶2. (C/NF) Latvia's economic crisis and the terms of its international financial assistance package are forcing massive cuts in the state budget. With roughly 15% having been cut to date, reduced GDP forecasts will necessitate further, potentially deeper reductions in spending. While the first round of cuts was largely mechanical, the government says that it will now examine the budget from scratch and (finally) undertake a comprehensive assessment of Latvia's goals and the means necessary to achieve them in assembling a new budget. The politics of a five-party coalition government mean this will be a difficult task.

¶3. (C/NF) Foreign and defense policy budgets have already taken big hits. The Defense ministry took an especially large cut in the first round given the size of its budget, although some of that came from projects outside its core mission, such as support for sporting facilities and teams. As a result of the cuts, the Latvian military will cease its participation in KFOR and EUFOR later this year, and focus on Afghanistan. At the MFA, salaries and allowances have been cut, nearly all planned summer transfers frozen, and some overseas staff recalled. Participation in EU and OSCE civilian missions has been reduced or eliminated. The development assistance budget has been effectively eliminated, but Latvia remains committed to finding other ways to support emerging democracies, especially Georgia, Moldova and Ukraine. These decisions have not been taken lightly. The Latvian government has consistently engaged us at the highest levels to explain what it is doing and why. The additional budgetary review currently underway will almost certainly lead to further cuts later this year.

¶4. (C/NF) To date, Latvia's foreign and defense policy has enjoyed broad and deep public and political support. The additional budget cuts required will now likely start to effect social spending, which has been largely protected to date. As individuals are more personally affected, we expect to see discussions and debates about the relative merits of social versus foreign affairs/defense spending. While this is not a phenomenon limited to Latvia, the comparatively small size of the Latvian budget amplifies the challenges. A fifty thousand dollar contribution to a trust fund, for example, is roughly equivalent to the annual pension of 15

retired people. In a country of 2.2 million, that is a number that means something. We need to do what we can to ensure that Latvia emerges from this crisis with the same strong trans-Atlantic orientation it currently has.

15. (C/NF) To achieve this, we need to help Latvia do what it can and not ask it do what it can't. We will need to temper our requests to Latvia and focus on the priority areas of Afghanistan and support to emerging democracies. On the first, we are in good shape. The partnership with the Michigan national guard in the OMLT, our FMF and IMET assistance, and the Embassy's outreach efforts in Latvia all support the Afghanistan mission and demonstrate to Latvians that this is a partnership that pays dividends for them and directly contributes to their own security. The possibility of a DLA assessment team, combined with rail traffic to Afghanistan through the northern distribution network, helps make the case that Latvians get something tangible out the relationship as well and will assist in maintaining public support for the Afghanistan mission. On democracy promotion, the biggest thing that the Latvians want is to be heard and to contribute politically to the discussion in NATO, the EU and in e-Pine meetings. We should also look to take advantage of Latvia's human capital, people with experience in making the transition we want other countries to make. Their practical experience is something we cannot duplicate and using them is another way to demonstrate that Latvia is a valued partner.

16. (C/NF) We believe that dialing back our requests now will maintain the relationship on a strong footing and ensure that when Latvia emerges from the crisis it remains willing and

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able to take an active role in supporting our foreign policy objectives.
ROGERS